

HOWARD COUNTY
Cresco, Iowa

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
June 30, 2004

HOWARD COUNTY, IOWA
Cresco, Iowa

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HOWARD COUNTY
Cresco, Iowa

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mary Jo Wilhelm	Board of Supervisors	January 2005
Dale Fenske.....	Board of Supervisors	January 2007
Janet McGovern	Board of Supervisors	January 2007
Mick Gamez.....	County Auditor	January 2005
Warren Steffen	County Treasurer	January 2007
Cherri Caffrey	County Recorder	January 2007
Mark Grinhaug.....	County Sheriff.....	January 2005
Joseph Haskovec.....	County Attorney	January 2007
Thomas Mullen.....	County Assessor	Appointed

Independent Auditors' Report

To the Officials of Howard County
Cresco, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Howard County, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Howard County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Howard County at June 30, 2004, and the respective changes in financial position and cash flows where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 13 to the financial statements, during the year ended June 30, 2004, Howard County adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; Statement No. 41, *Budgetary Comparison Schedule-Perspective Differences*.

Independent Auditors' Report (Continued)

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2005 on our consideration of Howard County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages **4 - 10** and **37 - 39** are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Howard County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

January 21, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Howard County provides this Management's Discussion and Analysis of Howard County's annual financial statements. This narrative overview and analysis of the financial activities of Howard County is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

Because Howard County is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the County's financial position and results of operations.

FINANCIAL HIGHLIGHTS

- County governmental funds revenue increased 5.4% or approximately \$335,000 from 2003 to 2004. Property and other County taxes increased approximately \$201,000 and intergovernmental increased approximately \$123,651.
- County program expenses were 4.3% or approximately \$278,000 more in 2004 than in 2003. Roads and transportation expense increased approximately \$273,000.
- The county's net assets increased 38%; approximately \$2,139,000 at June 30, 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 11 and 12, Exhibits A and B) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start on pages 13-14, Exhibit C. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as an agent or custodian for the benefit of those outside of the government (Agency Funds).

Reporting the County as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the County's finances is, "is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of net assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The County's governmental activities are displayed in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, government services to residents, administration or general government, interest on long-term debt and other non-program activities. Property taxes and state and federal grants finance most of these activities.

Fund Financial Statements

The fund financial statements begin on pages 13-14 Exhibit C and provide detailed information about the most significant funds—not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the County establishes many other funds to help it control and manage money for particular purposes.

Most of the County's basic services are accounted for in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The government fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found beginning on page 23.

Supplemental Information

The supplemental information begins on page 40 – 41 (Schedule 1) and provides detailed information about the non-major governmental funds and the individual agency funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The County's combined net assets increased from \$5,563,135 to \$7,702,036. The analysis below focuses on net assets and changes in net assets of government activities.

Net Assets of Governmental Activities

	(Expressed in Thousands)
	<u>2004</u>
Current and Other Assets	\$6,462
Capital Assets	<u>5,067</u>
Total Assets	<u>11,529</u>
Long-Term Debt Outstanding	361
Other Liabilities	<u>3,466</u>
Total Liabilities	<u>3,827</u>
Net Assets:	
Invested in Capital Assets, Net of debt	4,979
Restricted	1,678
Unrestricted	<u>1,045</u>
Total Net Assets	<u><u>\$7,702</u></u>

Net assets of the County's governmental activities increased by approximately 38%, (from \$5.6 Million) the largest portion of the County's net assets is the Invested in Capital Assets (infrastructure, buildings and equipment), less the related debt. The debt related to the Investment in Capital Assets is liquidated with sources other than capital assets. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Changes in Net Assets of Governmental Activities

	(Expressed in thousands) 2004
Program Revenues:	
Charges for service and sales	\$ 574
Operating grants and contributions	2,064
Capital grants and contributions	2,113
Property taxes	3,308
Unrestricted investments earnings	405
Other general revenues	441
Total revenues	8,905
Program Expenses:	
Public safety and legal services	895
Physical health and social services	451
Mental health	1,103
County environment and education	640
Roads and transportation	2,790
Government services to residents	218
Administration or general government	664
Non-program	4
Interest on long-term debt	1
Total expenses	6,766
Increase in net assets	2,139
Net assets July 1, 2003	5,563
Net assets June 30, 2004	\$ 7,702

The County's revenue increased 6.7% (\$424,537). The total cost of programs and services increased 4.34%, (\$279,000), with no new programs added this year. The modest growth in revenue allowed the County to cover this year's costs and slightly increase the County's net assets.

Governmental Activities

Howard County experienced a substantial 20.5% increase in property taxes levied in 2004. The increase was \$566,849. A large part of this increase was due to the board needing to move as many expenses as they could out of the general basic fund and into the general supplemental fund, as allowed by law.

Revenue increased in 2004 due to the property tax increase and some grants were also received.

THE COUNTY'S INDIVIDUAL MAJOR FUNDS

As the county completed the year, its governmental funds reported a combined fund balance of \$2.9 million, which is higher than last year's total by \$637,245. The \$2.9 million balance is 15% of the budgeted expenditures for the 2004 fiscal year. The following are the major reasons for the changes in fund balances from the prior year.

The combined ending fund balance of the General and General Supplemental funds increased by \$323,472 from 2003 to 2004. One primary reason for the increase, the departments did not use all of the allocated budgets and we did receive some of the additional funding from the state for the state credits and we also had some grants that crossed fiscal years.

The 46% reduction of balance in the Mental Health funds was as a result of new programs added in 2003. The reduction in 2003 combined with maximum levy that was at the maximum in 2004.

The Rural Services fund expenditures, revenue, and balance were very close to those anticipated in the 2004 budget.

The Secondary Road fund began the year with a balance \$154,813 higher and Road Use Tax revenue for 2004 was \$210,000 higher than anticipated. This contributed to the ending balance which was \$146,149 higher than the previous year.

BUDGETARY HIGHLIGHTS

The budget was amended on May 3, 2004 with an increase of revenue of \$66,779 and a decrease of expenditures of \$70,702. The major increases in revenue were higher revenue for road use tax than expected in the secondary road fund.

Budgeted expenditures were decreased \$70,702 for various departments. Total actual expenditures for 2004 were 18% under the amended budget expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the County had \$7,869 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This amount represents a net increase (including additions and deletions) of approximately \$2,453 million or 45% over last year.

Capital Assets at Year End of Governmental Activities

(Expressed in Thousands)

	2004
Land	\$1,134
Buildings	1,298
Equipment	3,324
Infrastructure	2,113
Total	<u>\$7,869</u>

This year's major additions include (expressed in thousands)

Secondary Road Equipment	222
Infrastructure	2,113
	<u>\$2,335</u>

The County had depreciation expense of \$421,643 for the year ended June 30, 2004 and total accumulated depreciation as of June 30, 2004 of \$2,801,735.

Debt Administration

At year end, the County had \$361,015 in debt compared to \$324,124 in notes and other debt last year as shown below.

Outstanding Debt at Year-End of Governmental Activities

(Expressed in Thousands)

	2004	2003
Notes Payable	\$35	\$100
Installment Purchase Agreements	53	0
Compensated Absences	273	224
	<u>\$361</u>	<u>\$324</u>

The Constitution of the State of Iowa limits the amount of general obligation debt that counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. The County's outstanding general obligation debt is significantly below this \$20 million limit.

Other obligations include accrued vacation pay and sick leave. More detailed information about the County's long-term liabilities is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The county begins the 2004 fiscal year with a balance of 34% when compared to expected expenditures. This high balance indicates departments were being fiscally responsible. The debt would only be necessary to continue operation until fall property tax revenue was received. Increased expenses for 2004 will include a 5% increase in liability and property insurance, replacement and upgrading of computer equipment, attorney fees for litigation, increases in health insurance premiums, salary increases, and repair or replacement of worn out equipment and vehicles.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Auditor's Office, 137 N Elm St Cresco, IA 52136.

HOWARD COUNTY
Cresco, Iowa

STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities
ASSETS	
Cash & Pooled Investments	\$2,803,664
Receivables	
Property Tax	
Delinquent	1,703
Succeeding Year	2,847,474
Interest & Penalty On Property Tax	8
Accounts	34,022
Accrued Interest	6,408
Due From Other Governments	188,500
Notes Receivable	326,272
Inventories	196,355
Prepaid Insurance	57,842
Capital Assets (Net of Accumulated Depreciation)	5,066,802
TOTAL ASSETS	11,529,050
LIABILITIES	
Accounts Payable	435,879
Accrued Interest Payable	217
Salaries and Benefits Payable	73,278
Due to Other Governments	109,151
Deferred Revenue	
Succeeding Year Property Tax	2,847,474
Long Term Liabilities	
Portion Due Or Payable Within One Year	
Capital Lease Purchase Agreements	17,329
General Obligation Notes	25,289
Compensated Absences	272,736
Portion Due Or Payable After One Year	
Capital Lease Purchase Agreement	35,878
General Obligation Notes	9,783
TOTAL LIABILITIES	3,827,014
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	4,978,523
Restricted For:	
Mental Health Purposes	91,546
Secondary Roads Purposes	773,950
Other Purposes	812,319
Unrestricted	1,045,698
TOTAL NET ASSETS	\$7,702,036

See Notes To Financial Statements

HOWARD COUNTY
Cresco, Iowa

STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues			Net (Expense) Revenue & Change In Net Assets
		Charges for Service	Operating Grants, Contributions, & Restricted Interest	Capital Grants and Contributions	
GOVERNMENTAL ACTIVITIES:					
Public Safety & Legal Services	\$894,784	\$152,500	\$3,117	\$ 0	\$(739,167)
Physical Health & Social Services	451,283	5,854	14,163	0	(431,266)
Mental Health	1,103,160	97,030	166,934	0	(839,196)
County Environment & Education	639,449	54,718	60,329	0	(524,402)
Roads & Transportation	2,789,491	17,999	1,812,765	2,113,446	1,154,719
Governmental Services to Residents	218,274	103,923	6,278	0	(108,073)
Administrative Services	663,685	126,536	0	0	(537,149)
Non-Program	4,110	15,580	0	0	11,470
Interest on Long-Term Debt	1,541	0	0	0	(1,541)
	<u>\$6,765,777</u>	<u>\$574,140</u>	<u>\$2,063,586</u>	<u>\$2,113,446</u>	<u>(2,014,605)</u>
GENERAL REVENUES:					
Property and Other County Tax Levied For:					
General Purposes					3,308,490
Penalty & Interest on Property Tax					28,902
State Tax Credits					186,102
Local Option Sales Tax					330,545
Unrestricted Investment Earnings					40,487
Miscellaneous					258,767
Gain on Disposal of Capital Assets					213
TOTAL GENERAL REVENUES					<u>4,153,506</u>
CHANGE IN NET ASSETS					2,138,901
NET ASSETS, BEGINNING OF YEAR (As Restated, Note 13)					<u>5,563,135</u>
NET ASSETS END OF YEAR					<u>\$7,702,036</u>

See Notes To Financial Statements

HOWARD COUNTY**Cresco, Iowa****BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2004

		Special Revenue	
	General	Mental Health	Rural Services
ASSETS			
Cash and Pooled Investments	\$794,022	\$240,162	\$319,571
Receivables			
Property Tax			
Delinquent	1,120	199	384
Succeeding Year	1,674,832	298,874	873,768
Interest & Penalty on Property Tax	8	0	0
Accounts	24,945	6,002	2,053
Accrued Interest	5,850	0	0
Due From Other Funds	5,343	0	0
Due From Other Governments	14,549	3,703	27,066
Note Receivable	326,272	0	0
Inventories	0	0	0
Prepaid Insurance	57,842	0	0
TOTAL ASSETS	\$2,904,783	\$548,940	\$1,222,842

LIABILITIES AND FUND BALANCES

Liabilities			
Accounts Payable	\$24,278	\$52,171	\$210
Salaries and Benefits Payable	33,645	2,280	4,836
Due To Other Governments	4,928	104,069	0
Deferred Revenue			
Succeeding Year Property Tax	1,674,832	298,874	873,768
Other	2,854	198	384
Total Liabilities	1,740,537	457,592	879,198
Fund Balances			
Reserved For:			
Inventories	0	0	0
Note Receivable	326,272	0	0
Unreserved, Reported In:			
General Fund	837,974	0	0
Special Revenue Funds	0	91,348	343,644
Capital Projects Fund	0	0	0
Total Fund Balances	1,164,246	91,348	343,644
TOTAL LIABILITIES AND FUND BALANCES	\$2,904,783	\$548,940	\$1,222,842

See Notes To Financial Statements

<u>Special Revenue</u>			
Secondary Roads	Capital Projects	Nonmajor Special Revenue	Total
\$939,297	\$122,101	\$274,913	\$2,690,066
0	0	0	1,703
0	0	0	2,847,474
0	0	0	8
0	0	1,022	34,022
0	0	363	6,213
0	0	0	5,343
143,182	0	0	188,500
0	0	0	326,272
196,355	0	0	196,355
0	0	0	57,842
<u>\$1,278,834</u>	<u>\$122,101</u>	<u>\$276,298</u>	<u>\$6,353,798</u>
\$321,263	\$ 0	\$ 0	\$397,922
32,517	0	0	73,278
154	0	0	109,151
0	0	0	2,847,474
0	0	0	3,436
<u>353,934</u>	<u>0</u>	<u>0</u>	<u>3,431,261</u>
196,355	0	0	196,355
0	0	0	326,272
0	0	0	837,974
728,545	0	276,298	1,439,835
0	122,101	0	122,101
<u>924,900</u>	<u>122,101</u>	<u>276,298</u>	<u>2,922,537</u>
<u>\$1,278,834</u>	<u>\$122,101</u>	<u>\$276,298</u>	<u>\$6,353,798</u>

**HOWARD COUNTY
Cresco, Iowa****RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2004**

Total governmental fund balances (page 13-14) \$2,922,537

***Amounts reported for governmental activities in the statement of net assets
are different because:***

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. The cost of the assets is \$7,868,537 and the accumulated depreciation is \$2,801,735. 5,066,802

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. 3,436

Internal service funds are used by management to charge the costs of self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. 70,493

Long-term liabilities, including bonds payable, accrued interest payable and compensated absences payable are not due and payable in the current period and therefore are not reported in the funds. (361,232)

Net assets of governmental activities (page 11) \$7,702,036

See Notes to Financial Statements.

HOWARD COUNTY**Cresco, Iowa**

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

Year Ended June 30, 2004

		Special Revenue	
	General	Mental Health	Rural Services
REVENUES			
Property & Other County Tax	\$1,661,945	\$340,454	\$1,268,475
Interest & Penalty on Property Tax	28,902	0	0
Intergovernmental	311,067	579,361	62,475
Licenses & Permits	3,350	0	0
Charges for Services	228,300	97,031	0
Use of Money & Property	62,022	0	0
Miscellaneous	52,829	1,692	5,183
Total Revenues	<u>2,348,415</u>	<u>1,018,538</u>	<u>1,336,133</u>
EXPENDITURES			
Operating:			
Public Safety & Legal Services	690,217	0	188,705
Physical Health & Social Services	450,526	0	0
Mental Health	0	1,099,206	0
County Environment & Education	385,703	0	207,918
Roads & Transportation	0	0	0
Governmental Services to Residents	207,311	0	3,226
Administrative Services	696,011	0	0
Nonprogram	510	0	0
Debt Service	0	0	0
Capital Projects	0	0	0
Total Expenditures	<u>2,430,278</u>	<u>1,099,206</u>	<u>399,849</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(81,863)</u>	<u>(80,668)</u>	<u>936,284</u>
Other Financing Sources (Uses)			
Sale of Capital Assets	0	0	0
Operating Transfers In	42,801	0	0
Operating Transfers Out	(44,098)	0	(919,959)
Proceeds of Installment Purchase	68,607	0	0
Total Other Financing Sources (Uses)	<u>67,310</u>	<u>0</u>	<u>(919,959)</u>
Net Change in Fund Balance	(14,553)	(80,668)	16,325
Fund Balances – Beginning of Year	1,198,305	172,016	327,319
Decrease in Reserve For Notes Receivable	(19,506)	0	0
Increase in Reserve For Inventories	0	0	0
Fund Balances – End of Year	<u>\$1,164,246</u>	<u>\$91,348</u>	<u>\$343,644</u>

See Notes To Financial Statements

Exhibit E

<u>Special Revenue</u> Secondary Roads	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
\$ 0	\$ 0	\$ 0	\$56,518	\$3,327,392
0	0	0	0	28,902
1,826,535	0	0	9,184	2,788,622
545	0	0	0	3,895
448	0	0	30,221	356,000
0	0	0	2,383	64,405
76,884	30,408	0	26,447	193,443
1,904,412	30,408	0	124,753	6,762,659
0	0	0	729	879,651
0	0	0	0	450,526
0	0	0	0	1,099,206
0	0	0	48,327	641,948
2,655,035	0	0	0	2,655,035
0	0	0	1,339	211,876
0	0	0	0	696,011
0	0	0	3,600	4,110
0	30,408	0	0	30,408
26,918	0	2,899	0	29,817
2,681,953	30,408	2,899	53,995	6,698,588
(777,541)	0	(2,899)	70,758	64,071
2,913	0	0	0	2,913
894,959	0	25,000	44,098	1,006,858
0	0	0	(42,801)	(1,006,858)
0	0	0	0	68,607
897,872	0	25,000	1,297	71,520
120,331	0	22,101	72,055	135,591
802,030	0	100,000	204,243	2,803,913
0	0	0	0	(19,506)
2,539	0	0	0	2,539
\$924,900	\$ 0	\$122,101	\$276,298	\$2,922,537

HOWARD COUNTY
Cresco, Iowa

**RECONCILIATION OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
Year Ended June 30, 2004

Net change in fund balances - Total governmental funds (page 16-17) \$118,624

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlays exceeded depreciation expense in the current year as follows:

Expenditures for Capital Assets	\$389,476	
Capital Assets Contributed by the Iowa Department of Transportation	2,113,446	
Depreciation Expense	(421,643)	2,081,279

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas in the governmental funds report the proceeds from the sale as an increase in financial resources. (2,700)

Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds.

Property Taxes	41	
Other	346	387

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues as follow:

Issued	(68,607)	
Repaid	80,950	12,343

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds as follows:

Compensated Absences	(49,233)	
Interest on Long-Term Debt	104	(49,129)

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The net revenue of the Internal Service Fund is reported with governmental funds. (21,903)

Change in net assets of governmental funds (page 12) \$2,138,901

**HOWARD COUNTY
Cresco, Iowa****STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2004**

	Internal Service Employee Group Health
<hr/>	
ASSETS	
Cash & Cash Equivalents	\$108,255
Receivables	
Accrued Interest	195
TOTAL ASSETS	108,450
<hr/>	
LIABILITIES	
Accounts Payable	37,957
<hr/>	
NET ASSETS	
Unrestricted	\$70,493
<hr/>	

See Notes To Financial Statements

**HOWARD COUNTY
Cresco, Iowa****STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2004**

	Internal Service Employee Group Health
OPERATING REVENUES	
Reimbursements From Operating Funds	\$385,502
Reimbursements From Employees	71,509
Insurance Reimbursements	11,843
Total Operating Revenues	468,854
OPERATING EXPENSES	
Medical Claims	348,745
Insurance Premiums	140,000
Administrative Fees	3,664
Total Operating Expenses	492,909
Operating Loss	(24,055)
NON-OPERATING REVENUES	
Interest on Investments	2,152
Net Loss	(21,903)
Net Assets Beginning of Year	92,396
Net Assets End of Year	\$70,493

See Notes To Financial Statements

**HOWARD COUNTY
Cresco, Iowa****STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2004**

	Internal Service Employee Group Health
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received From Operating Fund Reimbursements	\$385,502
Cash Received From Employees & Others	83,352
Cash Payments To Suppliers For Services	(481,815)
Net Cash Used in Operating Activities	(12,961)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Investments	2,006
Net Decrease in Cash & Cash Equivalents	(10,955)
Cash & Cash Equivalents at Beginning of Year	119,210
Cash & Cash Equivalents at End of Year	\$108,255
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating Loss	\$(24,055)
Adjustments to Reconcile Operating Loss to Net Cash Used In Operating Activities	
Increase in Accounts Payable	11,094
Net Cash Used In Operating Activities	\$(12,961)

See Notes To Financial Statements

**HOWARD COUNTY
Cresco, Iowa****STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2004****ASSETS**

Cash & Pooled Investments	
County Treasurer	\$590,773
Other County Officials	4,588
Receivables	
Property Tax	
Delinquent	46
Succeeding Year	7,330,105
Accounts	17,277
Accrued Interest	147
Due from Other Governments	20,835
TOTAL ASSETS	7,963,771

LIABILITIES

Accounts Payable	5,792
Salaries & Benefits Payable	5,046
Due To Other Governments	7,948,690
Trusts Payable	4,243
TOTAL LIABILITIES	7,963,771

NET ASSETS	\$ 0
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See Notes To Financial Statements

HOWARD COUNTY

Cresco, Iowa

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Howard County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are presented in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. REPORTING ENTITY

For financial reporting purposes, Howard County has included all funds, organizations, agencies, boards, commissions, and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the County.

These financial statements present Howard County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Blended Component Units – The following component units are entities that are legally separate from the County, but are so intertwined with the County that they are, in substance, the same as the County. They are reported as part of the County and blended into the appropriate funds.

Seven drainage districts have been established pursuant to Chapter 468 of the Code of Iowa for the drainage of surface waters from agricultural and other lands or the protection of such lands from overflow. Although these districts are legally separate from the County, they are controlled, managed and supervised by the Howard County Board of Supervisors. The drainage districts are reported as a Special Revenue Fund. Financial information of the individual drainage districts can be obtained from the Howard County Auditor's office.

Jointly Governed Organizations – The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The Howard County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Howard County Assessor's Conference Board, Howard County Emergency Management Commission, and Howard County Joint E911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

B. BASIS OF PRESENTATION

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other non-exchange transactions.

The Statement of Net Assets presents the County's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs that are not paid from other funds.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

B. BASIS OF PRESENTATION (CONTINUED)

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for secondary road construction and maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the County's general long term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

Additionally the County reports the following funds:

Proprietary Fund – An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the county and provided to other departments or agencies on a cost reimbursement basis.

Fiduciary Funds – Agency funds are used to account for assets held by the county as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units, and/or other funds.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However principal and interest on long term debt, claims, judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

The proprietary fund of the County applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Fund is charges to customers for sales and services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The County maintains its financial records on a cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. ASSETS, LIABILITIES AND FUND EQUITY

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and at the day of purchase, they have a maturity date no longer than three months.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2003.

Interest and Penalty on Property Tax Receivable – Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable, but has not been collected.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they are not available to liquidate current obligations.

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Infrastructure	\$ 50,000
Land, buildings and improvements	25,000
Equipment and vehicles	5,000

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>(In Years)</u>	Estimated Useful Lives
Buildings	40-65	
Building Improvements	20-50	
Infrastructure	30-50	
Equipment	2-20	
Vehicles	3-10	

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable – Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year-end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absence liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

Long-term Liabilities – In the government-wide financial statements and the proprietary fund financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities or proprietary fund Statement of Net Assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. BUDGETS AND BUDGETARY ACCOUNTING

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded amounts budgeted in the Roads and Transportation function, however, department disbursements did not exceed the amounts appropriated.

Note 2: Cash and Pooled Investments

The County's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$5,000, pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Note 3: Due from and Due to Other Funds

The detail of inter-fund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Trust and Agency: Auto License and Use Tax	\$5,343

These balances resulted from the time lag between the dates that inter-fund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Note 4 : Inter-fund Transfers

The detail of inter-fund transfers for the year ended June 30, 2004 is as follows:

Transfer To	Transfer From	Amount
General Basic	Featherlite TIF	\$42,801
Special Revenue		
New County Shop	Rural Services	25,000
Secondary Roads	Rural Services	894,959
Conservation Special Project	General Basic	44,098

Notes to Financial Statements (Continued)**Note 4 : Inter-fund Transfers (Continued)**

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Note 5: Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$1,133,592	\$ 0	\$ 0	\$1,133,592
Construction in Progress	40,268	45,453	85,721	0
Total Capital Assets, Not Being Depreciated	1,173,860	45,453	85,721	1,133,592
Capital Assets, Being Depreciated				
Buildings	1,211,991	85,721	0	1,297,712
Improvement Other Than Buildings	0	0	0	0
Machinery & Equipment	3,029,888	344,023	50,124	3,323,787
Infrastructure	0	2,113,446	0	2,113,446
Total Capital Assets, Being Depreciated	4,241,879	2,543,190	50,124	6,734,945
Less Accumulated Depreciation For:				
Buildings	660,809	14,987	0	675,796
Improvements Other Than Buildings	0	0	0	0
Machinery & Equipment	1,766,707	220,978	47,424	1,940,261
Infrastructure	0	185,678	0	185,678
Total Accumulated Depreciation	2,427,516	421,643	47,424	2,801,735
Total Capital Assets, Being Depreciated, Net	1,814,363	2,121,547	2,700	3,933,210
Governmental Activities Capital Assets, Net	\$2,988,223	\$2,167,000	\$88,421	\$5,066,802

Depreciation Expenses was Charged to the Following Functions:

Public Safety & Legal Services	\$30,171
County Environment & Education	51,331
Roads & Transportation	318,705
Government Services to Residents	1,995
Administration	18,171
Nonprogram	1,270
Total Depreciation Expense – Governmental Activities	<u>\$421,643</u>

Notes to Financial Statements (Continued)

Note 6 : Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

Fund	Description	Amount
General	Services	\$ 4,928
Special Revenue:		
Mental Health	Services	104,069
Secondary Roads	Services	154
		104,223
Total for governmental funds		\$ 109,151
Trust & Agency:		
Agricultural Extension	Collections	\$ 101,692
Assessor		132,635
Schools		4,549,085
Area Schools		247,092
Corporations		1,928,878
Auto License & Use Tax		168,493
All Others		820,815
Total for agency funds		\$7,948,690

Note 7 : Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004, is as follows:

	Installment Purchase Agreements	Notes Payable	Compensated Absences	Total
Beginning Balance	\$ 0	\$100,621	\$223,503	\$324,124
Increases	68,607	0	49,233	117,840
Decreases	15,400	65,549	0	80,949
Ending Balance	\$53,207	\$35,072	\$272,736	\$361,015
Due Within One Year	\$17,329	\$25,289	\$272,736	\$315,354

Notes to Financial Statements (Continued)

Note 7 : Changes in Long-Term Liabilities (Continued)

Installment Purchase Agreement

The County has entered into installment purchase agreements to purchase an AS400 and the related software. The following is a schedule of the future payments in effect at June 30, 2004:

	Year Ending June 30,	AS400	Software	Total
	2005	\$12,914	\$6,011	\$18,925
	2006	12,914	6,011	18,925
	2007	12,914	6,011	18,925
Total Installment Payments		38,742	18,033	56,775
Less Amount Representing Interest		(2,395)	(1,173)	(3,568)
Present Value of Payments		\$36,347	\$16,860	\$53,207

Payments under installment purchase agreement totaled \$15,585 for the year ended June 30, 2004.

Notes Payable

On October 25, 1993, Howard County entered into a loan agreement with the Cresco Union Savings Bank for a \$300,000 loan to finance the addition of the Patty Elwood Alzheimer's Unit to the Howard Residential Care Facility. The loan was to be repaid with 6% interest over a ten year period. Howard Residential Care Facility agreed to reimburse Howard County the \$300,000 with payments over a ten year period with 6% interest. The following is a schedule of future payments in effect at June 30, 2004:

Year Ending June 30,	Principal	Interest	Total
2005	\$20,474	\$359	\$20,883

Howard County entered into a loan agreement with Cresco Union Savings Bank for a \$20,000 loan for the purchase of an air conditioner for the Howard Residential Care Facility. The following is a schedule of future payments in effect at June 30, 2004:

Year Ending June 30,	Principal	Interest	Total
2005	\$4,815	\$655	\$5,470
2006	5,029	440	5,469
2007	4,754	214	4,968
	\$14,598	\$1,309	\$15,907

The Secondary Roads Department purchased a Caterpillar Motor Grader in November 1998. During the fiscal year ended June 30, 2004, this note was paid in full with payments totaling \$33,522.

Notes to Financial Statements (Continued)

Note 8 : Pension and Retirement Benefits

The County contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll except for law enforcement employees, in which case the percentages for the year ended June 30, 2004 are 4.99% and 7.48%, respectively. For the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%, respectively, and for the year ended June 30, 2002, the contribution rates for law enforcement employees and the County were 5.50% and 8.25%, respectively. Contribution requirements are established by State statute. The County's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$131,521, \$130,497, and \$125,027, respectively, equal to the required contributions for each year.

Note 9 : Risk Management

Howard County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 490 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims and claim expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of a deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if sufficient, by the subsequent year's member contributions.

The County's property and casualty contribution to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2004 were \$77,422.

The Pool uses reinsurance and excess risk sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks are reinsured on an individual member basis.

Notes to Financial Statements (Continued)

Note 9 : Risk Management (Continued)

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk sharing protection provided by the member's risk sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such losses can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the County's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contribution which the withdrawing member would have made for the one-year period following withdrawal.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$3,000,000 and \$20,000, respectively, with an additional \$30,000 for the Treasurer's employee blanket bond. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10 : Employee Health Insurance Plan

The Internal Service, Employee Group Health Fund was established to account for the self-funding of the County's health insurance benefit plan. This plan is funded by both employee and County contributions and is administered through a service agreement with The Benefits Group, Inc. The agreement is subject to automatic renewal provisions. The County assumes liability for claims up to the individual stop loss limitation of \$25,000. Claims in excess of coverage are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Employee Group Health Fund are recorded as expenditures from the operating funds. Under the administrative service agreement, monthly payments of service fees and claims processed are paid to The Benefits Group, Inc. from the Employee Group Health Fund. The County's contribution to the fund for the year ended June 30, 2004 were \$385,502.

Amounts payable from the Employee Group Health Fund at June 30, 2004 total \$37,957, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior-year and current-year claims, and to establish a reserve for catastrophic losses. That reserve was \$70,493 at June 30, 2004 and is reported as a designation of the Internal Service, Employee Group Health Fund retained earnings. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement Number 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years.

Notes to Financial Statements (Continued)

Note 11: Tax Increment Financing

On June 21, 1993, Howard County entered into a Development and Assessment Agreement with Featherlite Manufacturing. In the agreement, the County agreed to loan Featherlite Manufacturing \$400,000 for the construction of a corporate headquarters building in the County. The loan will be repaid with 7% interest over a twenty year period using the incremental tax revenues generated by property taxes on the new facilities.

On January 3, 1996, Howard County entered into a Development and Assessment agreement with Master Plastic. In the agreement, the County agreed to loan Master Plastic \$40,000 for adding diversity and generating new opportunities for Howard County. The loan will be repaid with 7% interest over a ten year period using the incremental tax revenues generated in the Howard County Urban Renewal Area.

Note 12: E911 Notes Payable

On July 1, 1995, the County entered into an agreement with Cresco Union Savings Bank to borrow \$115,250 to acquire, construct and improve the E911 system. The term of the note is nine years with final payment due on July 1, 2004. Payments are due quarterly with an interest rate of 6.75%. During the year ended June 30, 2004, this note was paid in full with principal payments of \$17,769 and interest payments of \$788.

Note 13 : Accounting Change and Restatement

Governmental Accounting Standards Board Statement No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences* were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the County’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements report the County’s governmental activities. Beginning net assets for governmental activities has been restated to include capital assets, the Internal Service Fund and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities is summarized as follows:

	Amount
Net Assets June 30, 2003, as Previously Reported	\$2,764,328
GASB Interpretation 6 Adjustments	39,586
Net Assets July 1, 2003, as Restated for Governmental Funds	2,803,914
GASB 34 Adjustments	
Capital Assets, Net of Accumulated Depreciation of \$2,427,516	2,988,223
Internal Service Fund	92,396
Long-Term Liabilities	(324,445)
Deferral of Long-Term Assets	3,047

Net Assets July 1, 2003, as Restated

\$5,563,135

Notes to Financial Statements (Continued)

Note 14: Closure and Postclosure Care Cost

Howard County has contracted with the Winneshiek County Area Solid Waste Agency. The purpose of the Agency is to provide for the economic disposal or collection and disposal of all solid waste produced or generated within each member. In performing its duties, the Agency may contract with and expend funds from federal, state and local agencies and private individuals and corporations.

State and Federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, state laws require the Agency to submit a closure and postclosure plant detailing the schedule for the methods by which the operator will meet the conditions for proper closure and postclosure. The Agency is in compliance with this requirement. On June 30, 2004, Howard County did not anticipate any additional assessment for closure and postclosure costs.

Note 15: Business Transactions

No business transactions between the County and County officials or employees were noted.

HOWARD COUNTY
Cresco, Iowa

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2004

	Actual	Less Funds Not Required to Be Budgeted	Net	Budgeted Amounts		Final to Net Variance Positive (Negative)
				Original	Final	
RECEIPTS						
Property & Other County Tax	\$3,331,308	\$ 0	\$3,331,308	\$3,250,570	\$3,294,971	\$36,337
Interest & Penalty on Property Tax	28,904	0	28,904	14,214	10,030	18,874
Intergovernmental	2,776,027	0	2,776,027	2,874,022	2,909,662	(133,635)
Licenses & Permits	3,845	0	3,845	1,850	1,850	1,995
Charges for Services	357,013	0	357,013	290,787	304,088	52,925
Use of Money & Property	67,508	0	67,508	89,690	65,640	1,868
Miscellaneous	191,310	10,649	180,661	130,130	131,467	49,194
Total Receipts	6,755,915	10,649	6,745,266	6,651,263	6,717,708	27,558
DISBURSEMENTS						
Public Safety & Legal Services	867,883	0	867,883	982,395	909,564	41,681
Physical Health & Social Services	458,023	0	458,023	543,640	517,792	59,769
Mental Health	1,036,226	0	1,036,226	1,060,188	1,037,179	953
County Environment & Education	661,201	0	661,201	902,668	879,915	218,714
Roads & Transportation	2,500,107	0	2,500,107	2,486,224	2,486,224	(13,883)
Governmental Services to Residents	211,063	0	211,063	233,649	221,819	10,756
Administrative Services	651,783	0	651,783	682,600	677,484	25,701
Nonprogram	4,110	3,600	510	1,000	1,000	490
Debt Service	30,408	0	30,408	30,409	30,409	1
Capital Projects	29,817	0	29,817	171,680	186,680	156,863
Total Disbursements	6,450,621	3,600	6,447,021	7,094,453	6,948,066	501,045
Excess (Deficiency) of Receipts Under Disbursements	305,294	7,049	298,245	(443,190)	(230,358)	528,603
Other Financing Sources, Net	2,913	0	2,913	0	532	2,381
Excess (Deficiency) of Receipts & Other Financing Sources Under Disbursements & Other Financing Uses	308,207	7,049	301,158	(443,190)	(229,826)	530,984
Balance Beginning of Year	2,381,859	2,474	2,379,385	1,850,126	2,379,600	(215)
Balance End of Year	\$2,690,066	\$9,523	\$2,680,543	\$1,406,936	\$2,149,774	\$530,769

See Accompanying Independent Auditors' Report

HOWARD COUNTY
Cresco, Iowa

BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2004

	Governmental Fund Types		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$6,755,915	\$6,744	\$6,762,659
Expenditures	6,450,621	247,967	6,698,588
Net	305,294	(241,223)	64,071
Other Financing Sources	2,913	68,607	71,520
Beginning Fund Balances	2,381,859	422,054	2,803,913
Increase (Decrease) in Reserve For:			
Notes Receivable	0	(19,506)	(19,506)
Inventories	0	2,539	2,539
Ending Fund Balances	\$2,690,066	\$232,471	\$2,922,537

See Accompanying Independent Auditors' Report

**Howard County
Cresco, Iowa**

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units and agency funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administrative services, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund and capital projects funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments decreased budgeted disbursements by \$146,387. These budget amendments are reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the Roads and Transportation function.

HOWARD COUNTY
Cresco, Iowa

COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
June 30, 2004

	County Recorder's Record Management	County Recorder's Electronic Transaction Fee	Tax Increment Financing
ASSETS			
Cash & Pooled Investments	\$19,687	\$22,739	\$11,185
Receivables			
Accounts	180	0	0
Accrued Interest	13	15	0
TOTAL ASSETS	\$19,880	\$22,754	\$11,185

FUND EQUITY

Fund Equity			
Fund Balance			
Unreserved	\$19,880	\$22,754	\$11,185

See Accompanying Independent Auditors' Report

Schedule 1

Resource Enhancement & Protection	Conservation Special Projects	Drainage District	Special Equipment	Conservation Land Acquisition Trust	Total
\$35,079	\$142,892	\$9,523	\$14,358	\$19,450	\$274,913
0	0	0	842	0	1,022
26	42	0	0	267	363
\$35,105	\$142,934	\$9,523	\$15,200	\$19,717	\$276,298
\$35,105	\$142,934	\$9,523	\$15,200	\$19,717	\$276,298

HOWARD COUNTY
Cresco, Iowa

COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR SPECIAL REVENUE FUNDS
Year Ended June 30, 2004

	County Recorder's Record Management	County Recorder's Electronic Transaction Fee	Tax Increment Financing
REVENUES			
Property & Other County Tax	\$ 0	\$ 0	\$56,518
Intergovernmental	0	0	0
Charges for Services	2,685	22,689	0
Use of Money & Property	154	65	0
Miscellaneous	0	0	0
Total Revenues	2,839	22,754	56,518
EXPENDITURES			
Operating:			
Public Safety & Legal Services	0	0	0
County Environment & Education	0	0	10,235
Governmental Services to Residents	1,339	0	0
Nonprogram	0	0	0
Total Expenditures	1,339	0	10,235
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,500	22,754	46,283
Other Financing Sources (Uses)			
Operating Transfers In	0	0	0
Operating Transfers Out	0	0	(42,801)
	0	0	(42,801)
Excess of Revenues and Other Financing Sources (Uses) Over Expenditures	1,500	22,754	3,482
Fund Balances – Beginning of Year	18,380	0	7,703
Fund Balances – End of Year	\$19,880	\$22,754	\$11,185

See Accompanying Independent Auditors' Report

Schedule 2

Resource Enhancement & Protection	Conservation Special Projects	Drainage District	Special Equipment	Conservation Land Acquisition Trust	Total
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$56,518
9,184	0	0	0	0	9,184
0	0	0	4,847	0	30,221
207	1,169	0	0	788	2,383
0	15,798	10,649	0	0	26,447
9,391	16,967	10,649	4,847	788	124,753
0	0	0	729	0	729
0	38,092	0	0	0	48,327
0	0	0	0	0	1,339
0	0	3,600	0	0	3,600
0	38,092	3,600	729	0	53,995
9,391	(21,125)	7,049	4,118	788	70,758
0	44,098	0	0	0	44,098
0	0	0	0	0	(42,801)
0	44,098	0	0	0	1,297
9,391	22,973	7,049	4,118	788	72,055
25,714	119,961	2,474	11,082	18,929	204,243
\$35,105	\$142,934	\$9,523	\$15,200	\$19,717	\$276,298

HOWARD COUNTY
Cresco, Iowa

COMBINING SCHEDULE OF FIDUCIARY
ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
ASSETS				
Cash & Pooled Investments				
County Treasurer	\$ 0	\$1,883	\$30,944	\$80,763
Other County Officials	4,588	0	0	0
Receivables				
Property Tax				
Delinquent	0	1	0	19
Succeeding Year	0	99,689	105,926	4,462,923
Accounts	16	0	0	0
Accrued Interest	0	0	0	0
Due From Other Governments	0	119	126	5,380
TOTAL ASSETS	\$4,604	\$101,692	\$136,996	\$4,549,085
LIABILITIES AND FUND EQUITY				
Liabilities				
Accounts Payable	\$ 0	\$ 0	\$ 4	\$ 0
Salaries & Benefit Payable	0	0	4,357	0
Due to Other Governments	400	101,692	132,635	4,549,085
Trusts Payable	4,204	0	0	0
TOTAL LIABILITIES	\$4,604	\$101,692	\$136,996	\$4,549,085

See Accompanying Independent Auditors' Report

Schedule 3

Area Schools	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Total
\$3,627 0	\$23,974 0	\$1,253 0	\$ 194 0	\$168,493 0	\$279,642 0	\$590,773 4,588
1 243,228 0 0 236	24 1,900,748 0 0 4,132	0 74,594 0 0 40	0 0 0 0 0	0 0 0 0 0	1 442,997 17,261 147 10,802	46 7,330,105 17,277 147 20,835
\$247,092	\$1,928,878	\$75,887	\$ 194	\$168,493	\$750,850	\$7,963,771
\$ 0 0 247,092 0	\$ 0 0 1,928,878 0	\$ 0 0 75,887 0	\$ 0 0 194 0	\$ 0 0 168,493 0	\$5,788 689 744,334 39	\$5,792 5,046 7,948,690 4,243
\$247,902	\$1,928,878	\$75,887	\$ 194	\$168,493	\$750,850	\$7,963,771

HOWARD COUNTY
Cresco, Iowa

**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY
ASSETS AND LIABILITIES – AGENCY FUNDS**

Year Ended June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
ASSETS AND LIABILITIES				
Balances – Beginning of Year	\$2,330	\$113,061	\$149,782	\$4,831,287
Additions				
Property & Other County Tax	0	102,049	108,382	4,562,024
E911 Surcharge	0	0	0	0
State Tax Credits	0	7,380	7,692	316,439
Driver License Fees	0	0	0	0
Office Fees & Collections	176,354	0	0	0
Electronic Transaction Fees	0	0	0	0
Auto Licenses, Use Tax & Postage	0	0	0	0
Assessments	0	0	0	0
Trusts	89,213	0	0	0
Miscellaneous	0	0	2,778	0
Total Additions	265,567	109,429	118,852	4,878,463
Deductions				
Agency Remittances				
To County Funds	108,436	0	0	0
To Other Governments	67,921	120,798	181,638	5,160,665
Trusts Paid Out	86,936	0	0	0
Total Deductions	263,293	120,798	181,638	5,160,665
Other Financing Sources (Uses)				
Operating Transfers In (Out)	0	0	50,000	0
Balances – End of Year	\$4,604	\$101,692	\$136,996	\$4,549,085

See Accompanying Independent Auditors' Report

Schedule 4

Area Schools	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Total
\$258,186	\$1,832,977	\$72,376	\$177	\$156,537	\$707,385	\$8,124,098
250,418	1,896,800	76,086	0	0	453,078	7,448,837
0	0	0	0	0	65,490	65,490
14,255	123,750	4,367	0	0	31,567	505,450
0	0	0	0	77,663	0	77,663
0	0	0	0	0	0	176,354
0	0	0	0	0	13,425	13,425
0	0	0	0	1,984,280	0	1,984,280
0	0	0	6,988	0	0	6,988
0	0	0	0	0	71,971	161,184
0	0	0	0	0	66,472	69,250
264,673	2,020,550	80,453	6,988	2,061,943	702,003	10,508,921
0	0	0	0	86,653	0	195,089
275,767	1,924,649	76,942	6,971	1,963,334	536,109	10,314,794
0	0	0	0	0	72,429	159,365
275,767	1,924,649	76,942	6,971	2,049,987	608,538	10,669,248
0	0	0	0	0	(50,000)	0
\$247,092	\$1,928,878	\$75,887	\$194	\$168,493	\$750,850	\$7,963,771

HOWARD COUNTY
Cresco, Iowa

SCHEDULE OF REVENUES BY SOURCE AND
EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS

For the Last Two Years

	Modified Accrual Basis	
	2004	2003
Revenues:		
Property & Other County Tax	\$3,327,392	\$3,126,425
Interest & Penalty On Property Tax	28,902	30,227
Intergovernmental	2,788,622	2,664,971
Licenses & Permits	3,895	4,733
Charges For Service	356,000	314,652
Use of Money & Property	64,405	94,381
Miscellaneous	193,443	182,480
Total	\$6,762,659	\$6,417,869
Expenditures:		
Current:		
Public Safety & Legal Services	\$879,651	\$887,697
Physical Health & Social Services	450,526	465,631
Mental Health	1,099,206	1,004,410
County Environment & Education	641,948	641,870
Roads & Transportation	2,655,035	2,382,111
Governmental Services To Residents	211,876	214,051
Administration Services	696,011	579,142
Non-Program	4,110	7,870
Debt Services	30,408	113,408
Capital Projects	29,817	124,409
Total	\$6,698,588	\$6,420,599

See Accompanying Independent Auditors' Report

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting

To the Officials of Howard County:

We have audited the financial statements of Howard County, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 21, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Howard County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved, except for items (2) and (7).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Howard County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Howard County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) is a material weakness. Prior year reportable conditions have been resolved except for items (A) and (B)

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Howard County and other parties to whom Howard County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Howard County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

January 21, 2005

HOWARD COUNTY
Cresco, Iowa

SCHEDULE OF FINDINGS
Year Ended June 30, 2004

Findings Related to the General Purpose Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were reported.

REPORTABLE CONDITIONS

- (A) **Segregation of Duties** – During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the County Officials should review the operating procedures of each office to obtain the maximum internal control possible under the circumstances.

Response – We have reviewed procedures and plan to make the necessary changes to improve internal control.

Conclusion – Response accepted.

- (B) **Information Systems** – During our review of internal control, the existing control activities in the County's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the County's computer based systems were noted:

The County does not have written policies:

- Requiring password changes because software does not require the user to change log-ins/passwords periodically.

Also, the County does not have a written disaster recovery plan.

Recommendation – The County should develop written policies addressing the above item in order to improve the County's control over computer based systems. A written disaster recovery plan should be developed.

Response – The County will comply in the future with these recommendations. County officials have discussed and agree that these policies are needed.

Conclusion – Response accepted.

Other Findings Related to Required Statutory Reporting:

- 1 **Official Depositories** – A resolution naming official depositories has been adopted by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- 2 **Certified Budget** – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the Roads and Transportation function. Also, the notice of the Emergency Mangement Budget Amendment hearing was not properly published.

Recommendation – The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.

Chapter 331.434 requires notice of public hearing to be published not less than ten nor more than twenty days before the hearing. Such notices should be published as required.

Response – We will amend the budget when required and publish notices of public hearings as required.

Conclusion – Response accepted.

- 3 **Questionable Expenditures** – We noted no expenditures that may not meet the requirements of public purpose as defined by an Attorney General’s opinion dated April 25,1979.
- 4 **Travel Expense** – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- 5 **Business Transaction** - No transactions between the County and County officials of employees were noted.
- 6 **Bond Coverage** – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of all bonds should be periodically reviewed to ensure that the coverage is adequate for current operations.
- 7 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not. However, it was noted the Board went into closed session several times without following the statutory procedures and Board minutes were not provided for publication as required by the Code of Iowa.

Recommendation – The Board of Supervisors should ensure that all closed sessions comply with Chapter 21 of the Code of Iowa and that the Board minutes are provided for publication in accordance with Chapter 349.18 of the Code of Iowa.

Response – We will comply with these requirements in the future.

Conclusion – Response accepted

- 8 **Resource Enhancement and Protection Certification** - The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) ad (b)(3).
- 9 **Deposits and Investments** – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the County’s investment policy were noted.

- 10 **Economic Development** – During the year ended June 30, 2004, the County paid \$77,108 for Economic Development, which appears to be an appropriate expenditure of public funds since benefits to be derived have been clearly documented.
- 11 **County Extension Office** – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2004 for the County Extension Office did not exceed the amount budgeted.

The County Extension Council accepted a bid for a remodeling project that was not the lowest bid submitted and did not document why the low bid was not accepted.

In January 15, 2004 Extension Council minutes, the Council approved Cresco Union Savings bank as its depository with a maximum to be on deposit of \$70,000. This amount was exceeded every month.

Not all invoices were properly cancelled to prevent reuse.

Recommendation – The Extension Council should document why the low bid is not accepted in the Council minutes. A new depository resolution should be approved in an amount great enough to cover anticipated balances. All invoices should be canceled to prevent reuse.

Response – We will document why low bids are not accepted in future Council minutes. We will review depository balances and determine an appropriate amount for the depository resolution that will cover anticipated balances. All invoices will be cancelled after payment in the future.

Conclusion – Response accepted

News Release

Gardiner Thomsen today released an audit report on Howard County, Iowa.

The County has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Also, included is Management's Discussion and Analysis of the County's financial statements.

The County had local tax revenue of \$11,467,781 for the year ended June 30, 2004, which included \$691,552 in tax credits from the State. The County then forwarded \$8,176,976 of the local tax revenue to the townships, school districts, cities, and other taxing bodies in the County.

The County retained \$3,290,805 of the local tax revenue to finance county operations, a 3% decrease from the prior year. Other revenues included charges for services of \$574,140, operating grants, contributions and restricted interest of \$2,063,586, unrestricted investment earnings of \$40,487 and other general revenues of \$258,767.

Expenses for the County operations totaled \$6,698,588, a 4% increase from the prior year. Expenses included \$2,655,035 for Roads and Transportation, \$1,099,206 for Mental Health, and \$879,651 for Public Safety and Legal Services.

The significant increase in expenses is due primarily to Roads and Transportation Expenses.

A copy of the audit report is available for review in the Office of the Auditor of State and County Auditor's office.

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